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THE AFDC STANDARD OF NEED IN MASSACHUSETTS

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SUMMARY

Introduction

The AFDC standard of need can be defined as "the amount deemed necessary by the state to maintain a hypothetical family at subsistence level" (Shea v. Vialpando).[1] In the AFDC program, each state's standard of need should represent a benchmark of how much money families of various sizes need to live. States are not obligated to pay AFDC recipients the full amount of the standard of need. Massachusetts has always paid 100% of its standard of need.

Federal regulations do not include methodological specifications of how a state should construct its standard of need. States are neither instructed nor guided about how the standard of need should reflect the cost of living for low income families, how the standard should vary by family size, and how the standard should be regularly updated to account for inflation.

As in most states, Massachusetts' decisions on these issues have not followed any consistent or scientific methodology. The basis for constructing Massachusetts' present standard of need was a statewide market basket survey conducted in 1949. The methodology for choosing and pricing the components of the standard has long since been lost.

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[1] Shea v. Vialpando, 94 S.Ct. 1746 (1974).

Massachusetts' standard of need has been updated periodically since 1949, but these updatings reflected largely political decisions by the Governor and the state legislature rather than a reasoned methodology. The occasional changes in the standard of need have not kept pace with inflation. The present Massachusetts standard of need does not represent a reasoned, scientific judgment about what it costs poor people to live in Massachusetts. It represents what Massachusetts does pay as benefits.

In 1970, Massachusetts' AFDC standard of need for a family of four was $4,091, rising to $5,334 in 1980, a 30% increase. During the same period, the Consumer Price Index (CPI) for Boston -- an indicator of inflation developed by the Bureau of Labor Statistics -- increased by 107%. While the CPI has more than doubled, the grant has increased by less than one-third. Even if the value of usually available food benefits is added to the cash value of the AFDC grant, the increase in the complete AFDC benefit package has been only 52% from 1970 to July 1980. The actual purchasing power of the AFDC grant has decreased by 37% (or 27% with food benefits) from 1970 to July 1980.[2]

Purpose of Report

Most generally, the purpose of this report is to establish a framework for rationally addressing issues involved in constructing a more sensibly based standard of need for Massachusetts. More specifically, the report possesses a threefold purpose:

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[2] July 1980 is employed throughout this report as the point of comparison, since that is the most recent month for which all needed data are available. All 1980 estimates (adjusted 1980 BLS Lower Urban Family Budget and adjusted Poverty Index), all hypothetical standards of need based on those estimates, and the value of the 1980 Massachusetts AFDC benefit package are based on July 1980. Inflation since July 1980 will increase the CPI, the BLS budgets, and the Poverty Index; the cash value of Food Stamps will also increase in January 1981.

- --delineating a set of alternative, cost-efficient approaches to choosing and pricing components of a Massachusetts standard of need;
- --describing alternative approaches for determining how a standard of need should vary by family size; and
- --presenting alternative methods for updating a standard of need to account for changes in the cost of living.

Approaches to Choosing and Pricing Components of a Standard of Need

In the report, three alternative, cost-efficient approaches to choosing and pricing components of a standard of need are described:

- --adapting the Bureau of Labor Statistics Lower Urban Family Budget;
- --adapting the Poverty Index; and
- --adapting the 1972-1973 Consumer Expenditure Survey.

The methodology of each approach is briefly described, its specific strengths and weaknesses delineated, and options for and costs of adapting the budget components are presented.

Bureau of Labor Statistics Lower Urban Family Budget

The BLS Budget Series, developed in the mid-1960s, was based on consumption surveys and on "scientific" standards, such as the USDA Low Cost Food Budget. The budgets do not specify how consumers should or do spend their available funds. However, the budgets do provide readily available and easily adjusted and updated data for specific geographic areas and classes of goods.

Using the BLS Lower Urban Family Budget as a base, a number of options are presented for the following budget components: food, transportation, clothing, personal care, other family consumption, household furnishings and operations, and shelter. As an example, the options for the transportation budget component range from $163 to $1,182, depending primarily on whether costs are allocated for public transportation only or for private transportation as well, and on the number of round trips included.

Adding together the least costly options derived from the BLS lower budget yields an AFDC standard of need of $7,621, compared to the July 1980 Massachusetts standard of $5,334 (or $6,840 with Food Stamps) for a family of four. Adding together the most costly options derived from the BLS lower budget yields an AFDC standard of need of $10,859, compared to the July 1980 Massachusetts standard of $5,334 (or $6840 with Food Stamps). The July 1980 Massachusetts standard of need is thus one-half to seven-tenths (or two-thirds to nine-tenths with Food Stamps) of a standard based on the benchmarks provided by the Bureau of Labor Statistics to measure a hypothetical budget for a lower income family.

The Poverty Index

The Poverty Index was developed from the 1948 and 1955 USDA Household Consumption Surveys which found that an average family of three or more persons spent one-third of its income on food. The USDA Economy Food Plan was substituted for the actual amount spent on food and then multiplied by three to arrive at the Poverty Index. The Poverty Index was developed for the nation as a whole, and is updated annually according to the overall CPI. The Poverty Index is simple, straightforward and easily adjustable for different family sizes, but it is also technically problematic. For example, the consumption surveys on which it is based are outdated, the Index cannot be readily broken into budget components, and the Economy Food Plan was only intended for emergency use.

The options presented for adapting the Poverty Index include using the national threshold for non-farm families, adjusting the Index to account for Boston's higher prices, and costing-out the medical component to account for availability of Medicaid. The options presented for adapting the Poverty Index range in cost from $7,191 to $8,469, compared to the July 1980 Massachusetts standard of $5,334 (or $6,840 with Food Stamps). The July 1980 Massachusetts standard of need is thus two-thirds to three-quarters (or eight-tenths to over nine-tenths with Food Stamps) of a standard based on the Poverty Index benchmark provided by the Bureau of Census to indicate "the minimum money income that could support an average family at the lowest level consistent with the standards of living prevailing in this country."[3]

The 1972-73 Consumer Expenditure Survey (CES)

The 1972-73 CES can be used to develop a standard of need that is conceptually similar to the Poverty Index. The consumption data can be analyzed to determine what are "appropriate" expenditures for AFDC families, and a multiplier based on the food component can be developed using (for example) the USDA Thrifty Food Plan as a base. The major benefits of this approach as compared to the Poverty Index are that the consumption data are more recent and that the budget components can be more easily determined. It is also possible to develop a standard of need based on expenditure patterns of single-parent families.

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[3] Orshansky, Mollie, "How Poverty Is Measured," Monthly Labor Review, February 1969, p.38.

The options presented for adapting the CES include: an option using CES data on expenditures of four-person families for CES' three lowest income classes; a similarly based option which excludes alcohol, tobacco, and specific recreational items; and an option employing CES data on expenditures for single-parent families. The costs of three options for adapting the CES range from $7,230 to $10,663, compared to the July 1980 Massachusetts standard of need of $5,334 (or $6,840 with Food Stamps). The July 1980 Massachusetts standard of need is thus 50% to 75% (or 65% to 95% with Food Stamps) of a standard based on the 1972-73 CES.

Approaches to Adjusting a Standard of Need for Family Size

Five alternatives are presented for adjusting the standard of need for different family sizes:

- --Use the method, presently utilized in the Massachusetts standard of need, of adding or subtracting 14.5% of the grant for a family of four for each additional family member.
- --Adjust each BLS Lower Urban Family Budget component individually to reflect economies or diseconomies of scale where they exist.
- --Use the BLS Budget Series adjustment factors, even though the BLS warns against using these factors if the BLS Budget itself has been adjusted.
- --Use the Poverty Index adjustment factor.
- --Use an average of the preceding adjustment factors. This results in the following:

MEAN ADJUSTMENT FACTORS DERIVED FROM FOUR OPTIONS							
Family Size	1	2	3	4	5	6	7
Adjustment Factor	.49	.66	.82	1	1.16	1.32	1.48

Updating a Standard of Need for Inflation

Three options are presented for indexing a standard of need to account for inflation:

--The annual percentage increases in the components of the BLS lower budget can be used to update a standard of need based on the BLS lower budget.

--The annual percentage increases in the Poverty Index can be used to update a standard of need based on the Poverty Index.

--The Boston CPI can be used to update a standard of need based on the CES.

CHAPTER ONE: INTRODUCTION

Definition of Standard of Need

The Code of Federal Regulations defines the AFDC standard of need as "the amounts used by the State to determine the needs of individuals." The U.S. Supreme Court has clarified that basic definition in several recent decisions. In 1970, the Supreme Court explicated the standard of need as the "yardstick for measuring who is eligible for public assistance" (Rosado v. Wyman).[1] In 1974, the Court further clarified the standard of need as "the amount deemed necessary by the State to maintain a hypothetical family at subsistence level" (Shea v. Vialpando).[2] According to the Court, the purpose of the standard of need is to "require states to face up realistically to the magnitude of the public assistance requirement and lay bare the extent to which their programs fall short of fulfilling actual need" (Rosado v. Wyman).[3]

Standard of Need and Benefit Level

In the AFDC program, each state's standard of need represents only a benchmark of how much money families of various sizes need to live. States are not obligated to pay AFDC recipients the full amount of the standard of need. As indicated by the Supreme Court in Rosado v. Wyman, the purpose of distinguishing between the AFDC standard of need and the AFDC benefit level is "forcing a state to accept the political consequence of such a cutback [of the benefit level below the standard of need] and bringing to light the true extent to which actual assistance falls short of the minimum acceptable."[4]

About half of the states pay AFDC recipients benefit levels below the full standard of need.[5] In these states, a percentage of the standard of need becomes the benefit level. However, states that pay their full standards may in fact pay smaller cash benefits than states that only pay a percentage of their standard. Massachusetts has always paid 100% of its standard of need.

Requirements for a Standard of Need

No single federal document contains all of the federally-mandated specifications which individual states must adhere to in constructing and implementing a standard of need. The federal specifications are included in the Code of Federal Regulations (CFR), the Social Security Act, and case law. These specifications are threefold. First, the CFR requires that a standard of need must be included within the state plan for AFDC, which must be filed annually with and approved by the Regional Office of the U.S. Department of Health and Human Services; as part of the state plan, the standard of need must be capable of both uniform and statewide administration.[6] Second, the 1967 amendments to the Social Security Act require "that by July 1, 1969 the amounts used by the state to determine the needs of individuals will have been adjusted to reflect fully changes in living costs since such amounts were established";[7] each state's standard of need was thus to have been updated by 1969 to reflect the then current cost of living. By implication -- and as later clarified by the Supreme Court -- a state cannot reduce its standard of need below its 1969 level. Third and finally, the Supreme Court in its 1977 decision on Roselli v. Affleck stipulated that a state also "may not lower or obscure its standard of need in such a way as to disguise the step and avoid public scrutiny";[8] the methodological basis used for constructing the standard of need thus must remain clear.

Massachusetts law requires that "Effective July first of every year, subject to appropriation, the department shall increase the total budget of each eligible recipient, before taking into consideration any available income and resources, by a percentage amount equal to the percentage rise in the United States Consumer Price Index (CPI)[9] for January first of that year over the level of said index for January first of the previous year plus such additional percentage amount as is recommended annually by the department and appropriated by the general court."[10] The key phrase is "subject to appropriation." Although state law indicates a general sense that the AFDC grant should increase annually with the increase in the national CPI, it does not actually require the state to increase the grant.

State Options for Constructing a Standard of Need

Beyond the minimal requirements for a standard of need established by the Social Security Act, the Code of Federal Regulations, and case law, states retain great flexibility in constructing a standard of need. States can establish fully "consolidated" standards, in which all families of a given size in the state are evaluated against a single criterion in establishing need, or states can establish any of numerous types of "partially consolidated" or "deconsolidated" standards, in which separate criteria (by family size) could exist for ages of children, intra-state variations in shelter costs, dietary needs, and so forth.[11]

Federal laws and regulations do not include methodological requirements for constructing a standard of need. States are presented neither guidelines nor parameters of appropriate or acceptable methodologies for determining the cost of living, or for determining how to update the standard of need to reflect changes in the cost of living since 1969.

Issues in Constructing a Standard of Need

In constructing a standard of need, all states confront a series of common issues which can be rationally addressed, discussed, and resolved. While these issues are "technical" and methodological, they are also normative and humanitarian. The issues are normative because no scientific methodology can determine what particular components should be included in a standard of need. Should "the amount deemed necessary to maintain a hypothetical family at subsistence level"[12] include liquor or new clothes or books? The issues are humanitarian because these "technical" decisions determine just how much money the Commonwealth's poorest citizens will receive.

Five common issues confront states in constructing a standard of need:

--What budget components should be included in a standard of need?

--How should prices be determined for those budget components?

--How should other government non-monetary benefits (such as Food Stamps, Medical Assistance, and subsidized housing) be dealt with in a standard of need?

--How should a standard of need vary by family size?

--How should a standard of need be updated to account for changes in the cost of living?

Standard of Need in Massachusetts

In Massachusetts, as in most states, these central methodological, normative and humanitarian issues have not been rationally addressed, discussed or resolved. The basis for constructing Massachusetts' present standard of need was a statewide market basket survey conducted in 1949. The methodology for choosing and pricing the components of the standard has long since been lost.

Massachusetts' standard of need has been updated periodically since 1949, but these updatings reflected largely political decisions by the Governor and the state legislature rather than a consistent methodology. These occasional changes in the standard of need have not kept pace with inflation. The present Massachusetts standard of need does not represent a reasoned, scientific judgment about what it costs poor people to live in Massachusetts. It represents what Massachusetts does pay as benefits.

In 1970, Massachusetts' AFDC standard of need for a family of four was $4,091, rising to $5,334 in July 1980, a 30% increase.* During the same period, the Consumer Price Index for Boston (excluding medical) -- an indicator of inflation developed by the Bureau of Labor Statistics -- increased by 107%. In other words, while the CPI has more than doubled, the grant has increased by less than one-third. The purchasing power of the AFDC grant has decreased by 37% since 1970.

Even if the monetary value of additional federal and state welfare benefits is added to the AFDC standard of need to account for all government benefits usually received by AFDC recipients, the gap between 1970-1980 change in Massachusetts' AFDC benefits and inflation remains large. For example, if the value of food benefits is added to the standard of need, the 1970-1980 increase in AFDC benefits is 52% while the increase in inflation is 107%.[13] The purchasing power of the AFDC grant plus food benefits has decreased by 27% from 1970 to July 1980. (See Figure 1.)

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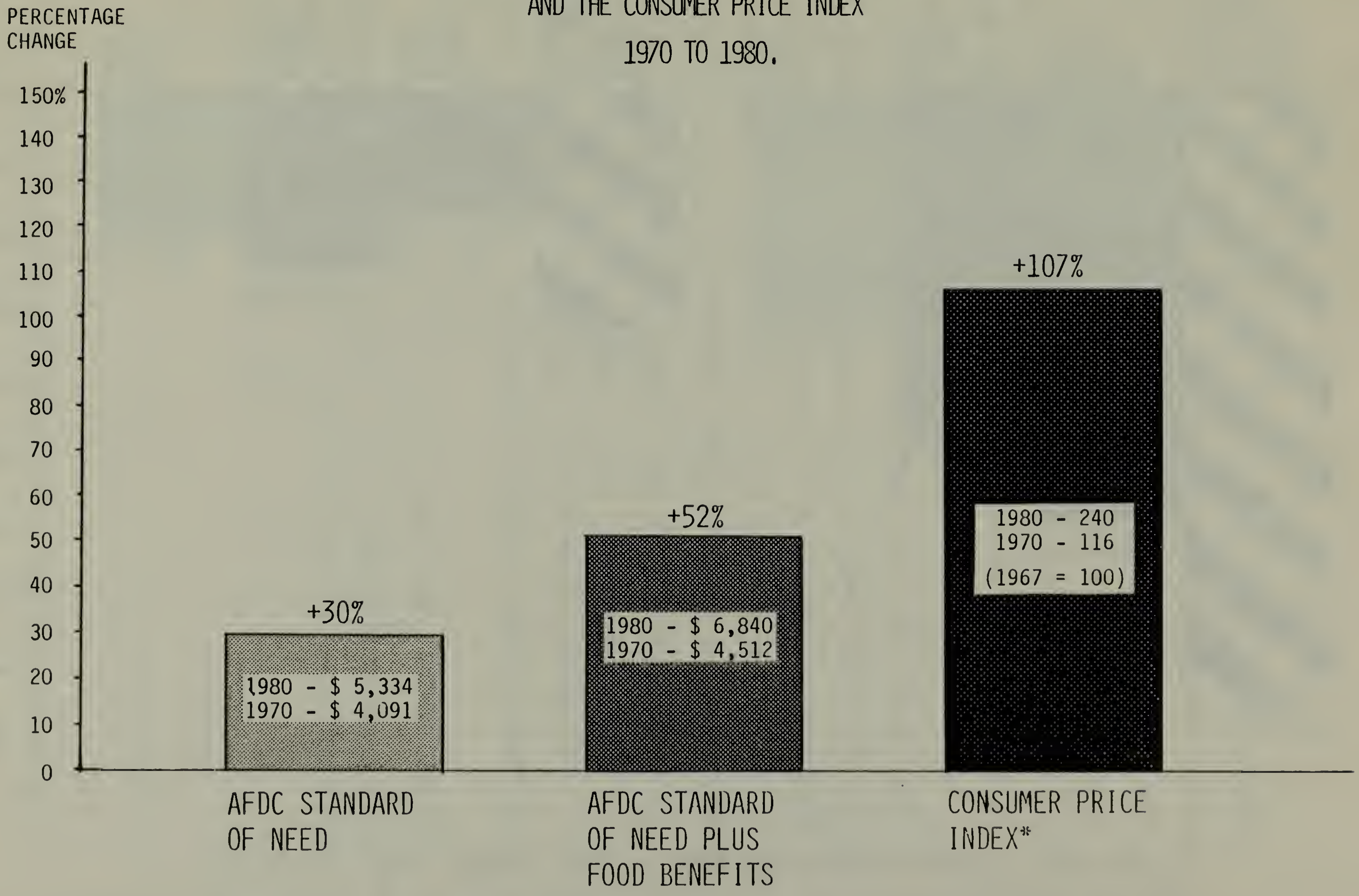
*July 1980 is employed throughout this report as the point of comparison, since that is the most recent month for which all needed data are available. All 1980 estimates (adjusted 1980 BLS Lower Urban Family Budget and adjusted Poverty Index), all hypothetical standards of need based on those estimates, and the value of the 1980 Massachusetts AFDC benefit package are based on July 1980. Inflation since July 1980 will increase the CPI, the BLS budgets and the Poverty Index; the cash value of Food Stamps will also increase in January 1981.

As will be explained more fully in Chapters Two and Three, the Bureau of Labor Statistics Lower Urban Family Budget (BLS lower budget) and the Poverty Index both constitute nationally accepted "adequate" budgets for low income families. After eliminating from the BLS lower budget the costs of medical care, social security and disability payments, personal income taxes, and other items (including allowances for gifts and contributions, life insurance, and occupational expenses), changes in the BLS lower budget and the Poverty Index from 1970 to 1980 can be compared with changes in the standard of need.

In 1970, AFDC benefits of $4,091 for a family of four were 77% of the adjusted BLS lower budget of $5,335. By 1980, AFDC benefits of $5,334 for a family of four had declined to 51% of the adjusted BLS lower budget of $10,542. Even if the value of food benefits is added to AFDC benefits, the total AFDC plus food benefits package for a family of four was 85% of the adjusted BLS lower budget in 1970 and only 65% of the adjusted BLS lower budget in July 1980. Similarly, the AFDC benefit level declined from 108% of the Poverty Index in 1970 to 67% in 1980 (or from 119% to 86% with food benefits).[14] From 1970 to 1980, the AFDC benefit package in Massachusetts has steadily declined as a percentage of both appropriately adjusted, nationally accepted adequate budgets for low income families. (See Figure 2.)

FIGURE 1: PERCENTAGE CHANGE IN THE AFDC STANDARD OF NEED, THE AFDC STANDARD OF NEED PLUS FOOD BENEFITS, AND THE CONSUMER PRICE INDEX 1970 TO 1980.



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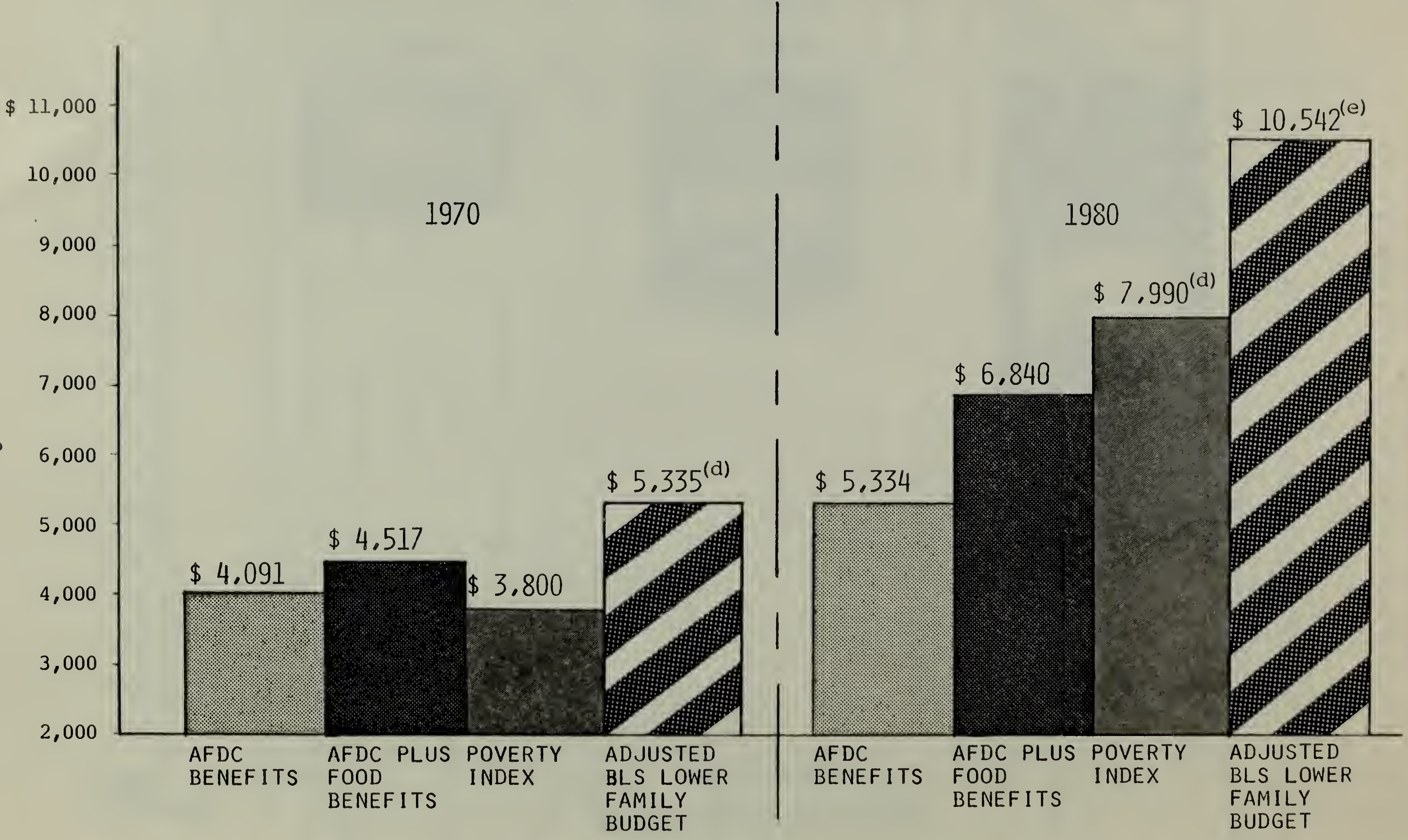
* For Boston, medical component excluded.

FIGURE 2: COMPARISON OF THE AFDC BENEFIT LEVEL WITH AN ADJUSTED BUREAU OF LABOR STATISTICS (BLS) FAMILY BUDGET[a] AND THE POVERTY INDEX[b] 1970-1980[c]



a) For Boston, excluding medical care, social security and disability payments, personal income taxes, and other items (including gifts, contributions, life insurance and occupational expenses).
b) 1980 Index, see Chapter Three, Footnote 3.
c) July, 1980
d) Estimated using CPI-W for Boston, excluding medical, Nov., 1979 - July, 1980.
e) Estimated using national CPI-U, Dec., 1979 - July, 1980.

Purpose of this Report

Most generally, the purpose of this report is to establish a framework which can be employed for rationally addressing, discussing, and resolving issues involved in constructing a new and more sensible standard of need for Massachusetts. More specifically, the report possesses a threefold purpose. First, the report presents a set of alternative, cost-efficient approaches for choosing and pricing components of a Massachusetts AFDC standard of need. The alternative approaches to be presented will be adapting the Bureau of Labor Statistics Lower Urban Family Budget, adapting the Poverty Index, and adapting the 1972-1973 Consumer Expenditure Survey. The basic methodology of each approach will be delineated, the strengths and weaknesses of each approach will then be described, and finally options for defining and pricing the budget components of each approach will be presented. Second, the report describes alternative approaches for determining how a Massachusetts standard of need should vary by family size. Third, the report delineates alternative methods which could be used to update a Massachusetts standard of need to account for changes in the cost of living.

The alternatives which are presented in this report are not exhaustive. Rather, the alternatives represent a set of reasonable, nationally accepted methodological options. Any of these options could be easily implemented with minimal data collection costs.

CHAPTER TWO: ALTERNATIVES FOR CONSTRUCTING A NEW MASSACHUSETTS STANDARD OF NEED: ADAPTING THE BUREAU OF LABOR STATISTICS LOWER URBAN FAMILY BUDGET.

Introduction

The rationale behind the present Massachusetts standard of need is unknown: DPW does not know how the standard's components were evaluated, chosen, and priced. Consequently, no easy way exists for rationally updating the standard to account for inflation. These difficulties, possibly inherent since the standard was initially constructed in 1949, have been exacerbated since 1970 as the standard has lagged further and further behind inflation. This and the following two chapters present three alternative methods for constructing a new and more rational standard of need: adapting the Bureau of Labor Statistics lower budget; adapting the Poverty Index; and employing the 1972-73 Consumer Expenditure Survey.

The general purpose of this chapter is to present the BLS lower budget as an alternative basis upon which to build a more rational standard of need. More specifically, the chapter has a threefold purpose: briefly explaining the BLS lower budget and its methodology; detailing the weaknesses and strengths of adapting the BLS lower budget as a basis for constructing a new standard of need; and specifying the options for and costs of adapting individual components of the BLS lower budget for a new standard.

Brief Explanation of BLS Budgets and Their Methodology

In the late 1960s, the Bureau of Labor Statistics constructed three hypothetical urban family budgets (for individual geographic areas) that reflected three standards of living. Included in the BLS budgets were expense and consumption components. Expense components included social security, disability payments, personal taxes and gifts, insurance, work expenses and contributions. Consumption components included food, housing (both shelter and household furnishings and operations), transportation, clothing, personal care, medical care, reading, recreation, tobacco products, alcoholic beverages, education and miscellaneous expenditures. Each component is costed out in each of the three BLS budgets. The cost of each component is updated annually (for individual geographic areas) according to the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W).

A combination of two techniques was utilized in constructing the BLS budgets. First, for those individual components for which scientific standards existed (for example, the minimum expenditures necessary for maintaining proper nutrition and health), these standards were utilized in conjunction with surveys of consumer expenditures in order to determine the particular selection among various items to be included in the budgets. Second, where scientific standards were not available, the specific quantities and qualities of the items to be included in the budgets were based on analyses of the BLS 1960-61 Consumer Expenditure Survey.

The BLS intermediate budget was developed in order to provide a guide for the maintenance of a "modest but adequate" standard of living. However, both the low-cost and high-cost budgets were mathematically derived from the intermediate budget, and the components of these two budgets were not individually determined.[1] Due to the manner in which the BLS lower and upper budgets were mathematically derived from the intermediate budget, the lower budget does not represent an empirical determination of a subsistence standard of living and the upper budget does not represent an empirical determination of an affluent standard of living.

The BLS lower budget specifies that the family lives in housing without air conditioning, performs services for itself, and utilizes free recreational activities. Housing must be clean and sanitary, and meet public health and housing authority standards. Costs for housing in the lower budget were calculated from the lower third of rents obtained during the regular surveys for the CPI. Food costs for the lower budget were based on the U.S. Department of Agriculture (USDA) Low Cost Food Budget.[2]

Weaknesses and Strengths of Adapting BLS Lower Budget

The BLS has consistently warned against using the Lower Urban Family Budget to "represent a minimum level of adequate income or a subsistence level of living";[3] but the BLS has also stated that in general "the individual components in the lower budget will provide the basis for more realistic benchmark estimates for assistance goals."[4] Thus, while the entire BLS lower budget is an inappropriate measure for a minimum standard of living, the components can be adjusted to construct a rational estimate for an AFDC standard of need.

At the same time, the BLS lower budget does contain weaknesses which affect its utility as an alternative basis for an AFDC standard of need. These weaknesses include:[5]

--The budgets are based on outdated (1960-61) data about consumption patterns for specific types of families. Later consumer surveys (1972) indicate that consumption patterns have changed and are different for single parent households.[6]

--The budgets "reflect the assumptions made about the manner of living at each of the three levels and do not either describe how money is spent or how it should be spent." Additionally, any adjustment of the BLS lower budget layers yet "another set of subjective decisions on top of those that were used to derive first the intermediate budget and then the lower budget."[7]

--Using the amount budgeted for the USDA Low Cost Food Plan (the basis for the food component of the BLS lower budget), only about 25% of consumers could eat adequately.[8]

--The BLS lower budget is costed out only for Boston, and may be inapplicable for the rest of Massachusetts.

The strengths of using the BLS lower budget are, on the other hand, significant.

--The BLS lower budget provides the only readily available budget for low-income families.

--The BLS lower budget can be adjusted to reflect the needs of AFDC clients.

--Using the CPI, the BLS lower budget can easily be updated for specific geographical areas and for classes of goods.

--It has been found that consumers spending the amount for USDA's higher food cost budgets may also not eat adequately.

--Employing the BLS lower budget developed for Boston as the basis for constructing a Massachusetts statewide AFDC standard of need may be appropriate, since 34% of the AFDC caseload lives in Boston or Greater Boston.[9]

--While the methods used in constructing the BLS budgets contain arbitrary elements, any technique used to construct a budget would rely on subjective judgements, and thus would be arbitrary as well.

Options for and Costs of Adapting BLS Lower Budget

This section outlines options and costs for adapting individual components of the BLS lower budget as a basis for an AFDC standard of need in Massachusetts.[9a] All figures and costs refer to a family of four. The following discussion is based on July 1980 price levels. These levels were estimated using the July 1980 CPI for Boston, July 1980 public transportation costs in Boston, the July 1980 USDA Thrifty and Low Cost Food Plans and unpublished data from the BLS in Washington.[10]

Food

The food component of the BLS lower budget, based on the USDA Low Cost Food Plan, is comprised of 4,135 meals-at-home (94.7%) and 233 meals-away-from-home (5.3%).

Option 1. Use the updated BLS budget component for food as is, including both food-at-home ($3,705) and food-away-from-home ($544), totalling $4,249. Because the percentage of meals-away-from-home is so small, 5.33%, or just over one meal/week/family member, a case could be made to include such meals in a welfare budget. Clearly, there are times when people cannot either be at home for a meal or prepare a meal in advance, and allowing for such contingencies could well be included in an AFDC budget.

Cost: $4,249

Option 2. Adjust the BLS lower budget to eliminate meals-away-from-home, and only include meals-at-home. In order to replace meals-away-from-home in the budget, the basic amount is increased by 5.33%, which yields $3,902.

Cost: $3,902

Options 3a and 3b. Use the current USDA Low-Cost Food Plan, rather than the updated 1969 Plan that is included in the BLS lower budget. Using the current plan and the standard BLS family configuration (2 adults and 2 children) yields a total food budget of $292/month or $3,504/year. Alternatively, one could use a family configuration that might more adequately reflect the AFDC caseload. If the family includes 1 adult female, and three children (3, 8 and 13 years old), the resulting food budget would be $256/month or $3,072/year.

Cost:

a) $3,504

b) $3,072

Transportation

The transportation component of the BLS lower budget is weighted to produce cost estimates as if 50% of the low income population owned automobiles and the other 50% did not. Since car ownership is sometimes considered to be inappropriate for AFDC recipients, the initial three transportation options described below include only costs for public transportation. The fourth option sets forth the possibility of using one transportation cost component for areas without public transportation and another for areas with public transportation. A fifth option which averages costs for public and private transportation is also presented. The BLS budget includes 590 public transportation round-trips, 43% of which are work-related trips and 25% of which are school fares. Both work-related trips and school fares have been omitted. The latter have been excluded since these fares are paid for locally.[11] This leaves about 186 round trips.

Option 1. Use the number of round-trips in the BLS budget for non-automobile owners and adjust for current public transportation costs in Boston. The cost of a bus plus train, or two zone trolley ride varies from $1.00 to $1.50 per round-trip in Boston. Using the mean amount ($1.25) yields a yearly transportation cost of $233.

Cost: $233.

Option 2. Replace the 186 ride standard with an allowance which enables one round-trip/family member/week or 208 round-trips. This yields $260/year.

Cost: $260

Option 3. Adjust option 2 for children's fares. Under the MBTA system, children under 4 are free, and children under 11 pay half fare. For a family of one adult and three children ages 3, 8 and 13, the yearly transportation budget would be $163.

Cost: $163

Options 4a and 4b. Employ two cost components for transportation expenses, one for areas with public transportation and one for areas without public transportation. The BLS lower budget for Boston includes $1,878 for private transportation. Updating to

July 1980 price levels yields $2,104. Options 1, 2 and 3 could be used for areas with public transportation.

Cost:

a) $2,104 for areas without public transportation

b) $233, $260 or $163 for areas with public transportation

Options 5a, 5b, and 5c. Use an average of public and private transportation costs. This yields $1,169, $1,182 or $1,134.

Cost:

a) $1,169

b) $1,182

c) $1,134

Clothing

The clothing component of the lower budget is based on the assumption that families have adequate clothing, and expenses are incurred only for replacement and upkeep. Although the amounts budgeted for clothing appear to be high, it should be noted that children's clothing must be replaced frequently.

Since the BLS lower budget is based on outdated consumption surveys, it does not make sense to try to disaggregate this component of the budget. Trying to do so would not yield meaningful data.[12] Therefore, only one option will be presented in this section.

Option 1. Use the updated BLS lower budget amount of $910 for

July 1980 price levels. This yields a budget of $910.

Cost: $910

Personal Care

The personal care component of the BLS lower budget includes toiletries, sanitary and hygienic supplies, and haircuts. Here again, trying to disaggregate this component of the budget would not yield meaningful data.

Option 1. Use the updated BLS lower budget amount of $343.

Cost: $343

Other Family Consumption

Other Family Consumption includes reading, recreation, education, tobacco, alcohol, and miscellaneous items. Miscellaneous items include bank service charges, legal expenses, and allowances. Two unpublished budget totals are computed by the BLS: one that combines reading, recreation and education, and one that combines tobacco, alcohol and miscellaneous items. While it is common for budgets prepared for subsistence level households to exclude alcohol and tobacco, a case could be made for including these items. Therefore, one of the options presented will include tobacco and alcohol.

Options 1a and 1b. Use the entire updated BLS budget amount of $640. Alternatively, only include half of the amount allocated for alcohol, tobacco and miscellaneous items. This yields $531.

Cost:

a) $640
b) $531

Options 2a and 2b. Use the updated BLS budget amount, excluding tobacco, alcohol and miscellaneous items, of $422. Alternatively, only include half of the amount allocated for reading, recreation and education. This yields $211.

Cost:

a) $422

b) $211

Household Furnishings and Operations

The BLS is based on the assumption that families have existing stocks of durable and non-durable goods and furniture that must only be replaced periodically. Items such as bedding, towels, curtains, certain appliances, detergent and furniture are included in this component. Generally, all of the items are necessary to maintain a household, and trying to eliminate items in this component would be unwieldy.

Option 1. Use the entire updated budget amount of $643.

Cost: $643

Shelter

Costs for the shelter component of the BLS lower budget are based solely on rental housing. The lower third of the rent distribution identified through the CPI's 1966 rent survey formed the basis for the BLS lower budget's initial cost estimates for shelter. Estimated costs for fuel and utilities were then added to rent costs. However, since the BLS lower budget was initially developed, the shelter component has been increased annually by the rental component of the CPI, which does not include fuel and utilities. Thus, the shelter component of the BLS lower budget increased only 8% from 1978 to 1979, while the costs of fuel and utilities increased by 32%. Insurance costs were also included in the budget.

The specified BLS lower budget apartment has five unfurnished rooms "in sound condition, having a complete private bath, a fully equipped kitchen, hot and cold running water, electricity, central or other installed heating, access to public transportation, schools, grocery stores, play space for children and location in residential neighborhoods free from hazards and nuisances."[13]

Option 1. Use the updated BLS lower budget shelter component of $2,279/year or $190/month. This underestimates housing costs since only rent and not fuel and utilities is taken into account.

Cost: $2,279

Option 2. Omit the BLS lower budget housing component, substituting DPW survey data. According to a survey completed by the Office of Research and Evaluation in 1980,[14] average shelter cost for AFDC families in April 1980 was $241/month. Using April costs as average monthly costs is a reasonable assumption. Recipients are still paying for heat in April, but not at the same rate they do during the coldest winter months. Shelter costs would then total $2,892/year.

Cost: $2,892

Option 3. Omit the BLS lower budget housing component, and substitute a cost for a basic housing component plus individual housing grants up to a maximum allowable rent.

The basic housing component could be determined in one of two ways:

(1) The basic housing component could comprise the same percentage

of the AFDC grant plus Food Stamps as does the shelter component in an appropriately adjusted BLS lower family budget. In 1979, 22% of the adjusted BLS lower family budget was allocated for shelter. Twenty-two percent of the AFDC grant plus Food Stamps ($6,846) in July 1980 was $1,506/year or $126/month.

(2) The basic housing component could comprise 25% of the AFDC grant plus Food Stamps. The 25% figure is utilized by most public and subsidized housing programs. Twenty-five percent of the AFDC grant plus Food Stamps in July 1980 was $1,712/year or $143/month.

The maximum allowable rent could be based on the Department of Housing and Urban Development's Fair Market Rent (FMR) schedule for two bedroom apartments.[15] The entire FMR or a percentage of the FMR could be used. Since FMRs vary across the state, a number of alternatives are possible.

(1) Maximum allowable rents could vary across the state. FMRs are computed for eleven Standard Metropolitan Statistical Areas (SMSAs) and thirteen non-SMSAs.

(2) An average of the highest ($355/month in Boston) and lowest ($235/month in Pittsfield) FMRs could be used to develop one statewide maximum.

Use a basic shelter component of $1,712/year ($143/month) and a statewide maximum allowable rent, based on the average of the highest and lowest FMRs in the state, of $3,540/year ($295/month.) Averaging the above minimum and maximum figures results in an estimated shelter cost of $2,626/year ($219/month).[16]

Cost: $2,626

Option 4. Develop regional standards for shelter based on Fair Market Rents . The entire FMR or a percentage of the FMRs, for example 80%, could be used to develop such standards.

Cost:

a) $2,820 to $4,260

b) $2,256 to $3,408

Medical Care

The Medicaid program in Massachusetts covers almost all medical, dental and drug costs (including aspirin and multivitamins). Since AFDC clients are categorically eligible for Medicaid, it seems reasonable to omit medical costs when developing a standard of need for AFDC in Massachusetts.

Other Items

This component includes gifts, contributions, and life insurance. This component has been omitted.

Personal Taxes, Social Security and Disability Payments

This component has been omitted.

Lowest and Highest Options

Adding together the least costly options for the BLS lower budget yields an AFDC standard of need of $7,621, compared to the Massachusetts July 1980 standard of $5,334 (or $6,840 with Food Stamps) for a family of four. Adding together the most costly options for the BLS lower budget yields an AFDC standard of need of $10,859, compared to the July 1980 Massachusetts standard of $5,334 (or $6,840 with Food Stamps). The July 1980 Massachusetts standard of need is thus one-half to seven-tenths (or two-thirds to nine-tenths with Food Stamps) of a standard based on the benchmarks provided by the Bureau of Labor Statistics to measure a hypothetical budget for a lower income family.

CHAPTER THREE: ALTERNATIVES FOR CONSTRUCTING A NEW MASSACHUSETTS STANDARD OF NEED: ADAPTING THE POVERTY INDEX

Introduction

The general purpose of this chapter is to present the Poverty Index as a second alternative basis upon which to build a more rational standard of need in Massachusetts. More specifically, the chapter has a threefold purpose: briefly explaining the Poverty Index and its methodology; detailing the weaknesses and strengths of adapting the Poverty Index as a basis for constructing a new standard of need; and specifying the options for and costs of adapting individual components of the Poverty Index for a new standard.

Brief Explanation of Poverty Index and Its Methodology

The Poverty Index was developed by the Social Security Administration in 1964 to "specify the minimum money income that could support an average family of a given composition at the lowest level consistent with the standards of living prevailing in this country."[1] Basing its conclusions on the 1948 and 1955 USDA Household Food Consumption Surveys, the SSA found that an average family of three or more persons spent one-third of its income on food. The Economy Food Plan was chosen as the base for the Index since the USDA found that the amount allocated for food under this plan enabled a family to spend a minimum amount and yet eat adequately. The base amount was then multiplied by three (the "multiplier") to arrive at the Poverty Index. Poverty thresholds were set "for 124 different kinds of families, based on sex of the head, the number of children under eighteen, the number of adults, and whether or not the household lives on a farm."[2]

Since its inception in 1964, the method of calculating the Poverty Index has changed. Poverty thresholds were kept for the base year, but annual adjustments were made according to increases in the CPI rather than by using the updated Economy (now Thrifty) Food Plan. The rationale for this change was that the increase in the cost of living was not adequately reflected in the cost of the Economy Food Plan.[3]

Weaknesses and Strengths of Adapting the Poverty Index

The Poverty Index has several weaknesses which may mar its adaptation as a basis for an AFDC standard of need:[4]

--The Economy Food Plan, on which the Index was originally based, was created for temporary emergency use only. It has been estimated that only about 10% of the people utilizing the amount allocated for food by the plan ate a nutritionally adequate diet. Thus, the costs for food and subsequently the Poverty Index may underestimate costs of maintaining a minimum standard of living.

--The choice of food as the base for the Poverty Index may be inappropriate; the housing component may be a more appropriate base, since housing exhibits greater variation than food in costs and economies of scale.

--The multiplier was determined from an outdated survey (the 1955 Survey of Household Food Consumption) and may not have been appropriate in 1964 when the Index was established. The 1972-73 Consumer Survey indicates that families spent a lower percentage of their income on food than had previously been found.[5] Thus, the multiplier may be low, and subsequently the Poverty Index may underestimate costs of maintaining a minimum standard of living.

--The Poverty Index cannot be broken down into component parts other than food. It has been suggested that the percentage allocations of the BLS lower budget be used for this purpose, but this would be arbitrary. The Poverty Index and the BLS budget series were developed using different methodologies; trying to combine the two is methodologically inappropriate.

--The Poverty Index does not address the issue of whether -- other than food -- the budget allows sufficient money so that minimum standards could be met for housing, clothing, transportation, and so forth.

--The current Poverty Index no longer reflects the initial relationship of food to other consumption since the Index is annually updated according to the CPI. Because of this updating, food no longer constitutes one-third of the Poverty Index and it is unclear just what the current Index measures.

--The Index is only developed nationally and does not reflect local cost differences. The BLS Urban Family Budget Comparative Index indicates that consumption costs in Boston are 6% higher than the nation overall.

The Poverty Index does, however, have one major strength: it is a simple, straightforward measure that is easily adjustable for a variety of family constellations.

Options and Costs for Adapting the Poverty Index

As the previous discussion indicates, the Poverty Index has substantial weaknesses which impede its adaptation as a basis for developing a new AFDC standard of need. But since the Poverty Index is a widely known measure, this section will outline two options for adapting the Poverty Index.

Options 1a and 1b. Use the Poverty Index as the basis for the AFDC standard. The estimated 1980 Index is $7,990[6] for a non-farm family of four, 50% higher than the current yearly grant of $5,334. Alternatively, the Index could be adjusted by BLS budget series comparative index to reflect the higher prices that exist in Boston. With consumption costs being 6% higher in Boston, the adjusted Poverty Index becomes $8,469.

Cost:

a) $7,990

b) $8,469

Option 2. Cost-out the medical component from the Poverty Index and use the remainder as the standard of need.[7] Using the same percentage for medical costs as found in the adjusted BLS lower budget (10%), the adjusted Index becomes $7,191 or $7,623.

Cost:

a) $7,191

b) $7,623

Lowest and Highest Options

The least costly option for adapting the Poverty Index yields an AFDC standard of need of $7,191 compared to the Massachusetts July 1980 actual standard of need of $5,334 (or $6,840 with Food Stamps) for a family of four. The most costly option for adapting the Poverty Index yields an AFDC standard of need of $8,469, compared to the July 1980 Massachusetts standard of $5,334 (or $6,840 with Food Stamps). The July 1980 Massachusetts standard of need is thus two-thirds to three-quarters (or 81% to 95% with Food Stamps) of a standard based on the Poverty Index benchmark provided by the Bureau of Census to indicate "the minimum money income that could support an average family at the lowest level consistent with the standards of living prevailing in this country."[8]

CHAPTER FOUR: ALTERNATIVES FOR CONSTRUCTING A NEW MASSACHUSETTS STANDARD OF NEED: ADAPTING THE 1972-73 CONSUMER EXPENDITURE SURVEY

Introduction

The general purpose of this chapter is to present the 1972-73 Consumer Expenditure Survey (CES) as a third alternative basis upon which to build a more rational standard of need in Massachusetts.[1] More specifically, this chapter has a threefold purpose: briefly explaining the CES and its methodology; detailing the weaknesses and strengths of adapting the results of the CES as a basis for constructing a new standard of need; and specifying the options for and costs of adapting the results of the CES for a new standard.

Brief Explanation of Consumer Expenditure Survey and Its Methodology

Conducted by the U.S. Bureau of Census under contract with the Bureau of Labor Statistics, the CES was undertaken to provide detailed information on consumer spending patterns and to revise weights according to Consumer Price Index components. The surveys are undertaken periodically: eight have been conducted since the first CES in 1888-91, with the most recent CES conducted in 1972-73. National samples are employed. (See Appendix A for a detailed description of the CES.)

Weaknesses and Strengths of Adapting the Consumer Expenditure Survey

Two weaknesses impede adapting the results of the CES for building an AFDC standard of need:

--Significant regional CES data are not available.

--The most recently available CES is eight years old. Given the high inflation the U.S. has been experiencing, 1972-73 spending patterns may not accurately reflect 1980 spending patterns.

The CES does have several strengths which make it an attractive basis upon which to build a new AFDC standard of need:

--CES data are readily available and easily manipulated.

--While appropriate CES data for Boston are not available, it is possible to update each CES component using the CPI for Boston.

--CES data are the most recent now available.

--Expenditure patterns for various family sizes can be determined.

Options and Costs for Adapting the Consumer Expenditure Survey

The CES identifies patterns of consumption for various income classes, but the sample is still too small to enable isolating data on AFDC recipients. Also, it would be inappropriate to use only data from AFDC recipients when trying to determine a standard of need. In order to approximate AFDC recipient spending patterns for this chapter, expenditure data are employed for a) CES' three lowest income classes, and b) single-parent families.

The basic methodology employed here in adapting the results of the CES for use in constructing a new AFDC standard of need is similar to that used when the Poverty Index was developed. This methodology consists of four steps. First, the percentages allocated to each updated budget component in the CES will be determined. Second, a multiplier will be derived based on the percentage of the total budget spent on food. Third, the cost of the USDA Thrifty Food Plan will then be substituted for the amount spent on food, and will be multiplied by the multiplier to yield a new budget total. Finally, costs for other budget components will then be derived using this new budget total, and the cost of the Thrifty Food Plan will remain as the food budget component. Costs of components other than food will then bear roughly the same percentage relationship to food as in the CES. Since the CES reflects 1972-73 prices, each CES component was updated according to the Boston CPI to reflect July 1980 prices. January 1973 prices were used as the base period since interview data were collected through 1972-73.

The weaknesses of this basic methodology for adapting CES results are fourfold:

--The percentage spent on other budget categories may alter if the total allocated to food is changed.

--Adequacy of expenditures for meeting minimal health standards is addressed only for food. The amount allocated for other items may not be adequate to meet the health and safety needs of recipients.

--It is difficult to eat nutritionally adequate meals on the amount budgeted for the Thrifty Food Plan.

--Data for single parent households are not broken down into income class or family size.

The strength of the basic methodology for adapting CES results is that it parallels the methodology employed in developing the Poverty Index, a widely accepted yet flawed indicator of poverty.

Incorporating the basic methodology described above, four options for adapting CES results for constructing a new AFDC standard of need have been identified. Other alternatives could be developed depending upon which categories of goods and services are included, and which USDA Food Plan is used. However, the basic methodology would be the same.[2]

Option 1. This option reflects CES data on expenditures of four-person families for the three lowest CES income classes. Personal insurance, gifts, and contributions have been excluded, but all other consumption expenditures have been included. Table 1 details average expenditures, updated to July 1980 levels, for a family of four. Percentages for each budget component are shown. The housing component, totalling 34.3% of expenditures, comprises the largest component of the budget. The 28.3% allocated to food yields a multiplier of 3.53. Transportation, at 17.8%, comprises the third largest component, with the remaining items each composing between 0.4% and 6.8% of the budget. Also included in Table 1 are budget totals after the Thrifty Food Plan has been substituted for the food component. Multiplying the cost of the Thrifty Food Plan for a family of four ($2,729) times the multiplier (3.53) yields a total budget of $9,633. Using the percentages determined previously, the other budget components were determined. If the medical component of the budget is omitted to account for Medicaid, the standard of need for a family of four becomes $9,281.

Cost: $9,281

TABLE 1: JULY 1980 ESTIMATED AVERAGE EXPENDITURES FOR A FAMILY OF FOUR FOR THE THREE LOWEST INCOME CLASSES[a] AND A STANDARD OF NEED FOR AFDC (BASED ON ALL CONSUMPTION EXPENDITURES)

	CES Average Expenditures	Percent of CES Average Expenditures	Standard of Need
Food	$2,739	28.3%	$2,729[b]
Alcohol	42	0.4	39
Tobacco	229	2.4	231
Housing	3,327	34.3	3,304
Clothing	658	6.8	655
Transportation	1,722	17.8	1,715
Health Care	382	3.9	376
Personal Care	75	0.8	77
Other Recreation	376	3.9	376
Reading	34	0.4	39
Education	37	0.4	39
Miscellaneous	74	0.8	77
TOTAL	$9,695	100.2%[c]	$9,657
			$9,281 less health care

Multiplier 3.53

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a. The cut-off point for the three lowest income classes was $5,000 in 1973. Using the Weekly Earnings of Factory Production Workers for the Boston Metropolitan Area to estimate wage inflation yields $8,000. However, this underestimates total income for the three lowest income classes. The increase in the percentage of part-time workers led to a smaller total increase in the Weekly Earnings of Factory Production Workers from 1972 to 1980 than would have existed if the percentage of part-time workers had remained the same from 1972-1980.[3]

b. The cost of the USDA Thrifty Food Plan is $2,729. Multiplying by 3.53 yields $9,633 for the total budget. Adding the budget components yields $9,657 due to rounding error.

c. Rounding error.

Options 2a and 2b. This option also reflects CES data on expenditures for four-person families for the three lowest income classes. However, this option includes an adjusted consumption pattern. Alcoholic beverages, tobacco, automobile ownership and some recreational items have been excluded from the total consumption budget. Table 2 details average expenditures, updated to July 1980, for average four-person families. Percentages for each budget component are shown. Since the percentage allowed for food increases under this method, the multiplier decreases to 2.79 and the total budget is $7,611, $2,046 less than the all item consumption budget. Omitting medical expenses yields a standard of need of $7,230.

Cost: $7,230

TABLE 2: JULY 1980 ESTIMATED AVERAGE EXPENDITURES FOR A FAMILY OF FOUR FOR THE THREE LOWEST INCOME CLASSES[a] AND A STANDARD OF NEED FOR AFDC (BASED ON SELECTED CONSUMPTION EXPENDITURES)

	CES Average Expenditures	Percent of CES Average Expenditures	Standard of Need
Food	$2,739	35.9%	$2,729[b]
Housing	3,327	43.6	3,320
Clothing	658	8.6	655
Public Transportation	87	1.1	84
Health Care	382	5.0	381
Personal Care	75	1.0	76
Other Recreation	234	3.1	236
Reading	37	0.5	38
Education	22	0.3	23
Miscellaneous	66	0.9	69
TOTAL	$7,627	100.0%	$7,611
			$7,230 less health care

Multiplier 2.79

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[a] The cut-off point for the three lowest income classes was $5,000 in 1973. Using the Weekly Earnings of Factory Production Workers for the Boston Metropolitan Area to estimate wage inflation yields $8,000. However, this underestimates total income for the three lowest income classes. The increase in the percentage of part-time workers led to a smaller total increase in the Weekly Earnings of Factory Production Workers from 1972 to 1980 than would have existed if the percentage of part-time workers had remained the same from 1972 to 1980.[4]

[b] The cost of the USDA Thrifty Food Plan is $2,729. Multiplying by 2.79 yields $7,614 for the total budget. Adding the budget components yields $7,611 due to rounding error.

Option 3. This option reflects CES data on expenditures for single-parent families adjusted for a family size of four. Personal insurance, gifts, and contributions have been excluded, but all other consumption expenditures have been included.

Table 3 details average expenditures, updated to July 1980 price levels, for average single-parent families and a standard of need for a family of four. Since the percentage allocated to food decreases for single parent families, the multiplier of 4.05 is higher than for options 1 and 2. Again, the housing component, totalling 36.4% of expenditures, comprises the largest component of the budget.

Cost: $10,663

TABLE 3: JULY 1980 ESTIMATED AVERAGE EXPENDITURES FOR SINGLE-PARENT FAMILIES AND A STANDARD OF NEED FOR FOUR-PERSON AFDC FAMILIES (BASED ON ALL CONSUMPTION EXPENDITURES)[a]

	CES Average Expenditures	Percent of CES Average Expenditures	Standard of Need
Food	$ 2,901	24.7%	$ 2,729[b]
Alcohol	57	0.5	55
Tobacco	190	1.6	177
Housing	4,276	36.4	4,023
Clothing	914	7.8	862
Transportation	2,132	18.1	2,000
Health Care	418	3.6	398
Personal Care	113	1.0	111
Other Recreation	511	4.3	475
Reading	45	0.5	44
Education	95	0.8	88
Miscellaneous	103	0.9	99
	$11,755	100.0%	$11,061
			$10,663 less health care

Multiplier 4.05

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a. Average family size was 3.2 and average income before taxes was $ 6554 in 1973. Using the Weekly Earnings of Factory Production Workers for the Boston Metropolitan Area to estimate wage inflation yields $10,486 in 1980. However, this may underestimate total average income for single-parent families. The increase in the percentage of part-time workers led to a smaller total increase in the Weekly Earnings of Factory Production Workers from 1977 to 1980 than would have existed if the percentage of part-time workers had remained the same from 1977 to 1980.[5]

b. The cost of the USDA Thrifty Food Plan is $2,729. Multiplying by 4.05 yields $11,052. Adding the budget components yields $11,061 due to rounding error.

Option 4. This option also reflects CES data on expenditures for single-parent families. However, this option includes an adjusted consumption pattern. Alcoholic beverages, tobacco, automobile ownership and some recreational items have been excluded from the total consumption budget.

Table 4 details average expenditures, updated to July 1980 levels, for average single-parent families for selected consumption components. Percentages for each budget component are shown here again. The housing component, totalling 45.9% of expenditures, comprises the largest component of the budget. The 31.1% allocated to food yields a multiplier of 3.22.

Cost: $8,387

TABLE 4: JULY 1980 ESTIMATED AVERAGE EXPENDITURES FOR SINGLE-PARENT FAMILIES[a] AND A STANDARD OF NEED FOR FOUR-PERSON AFDC FAMILIES (BASED ON SELECTED CONSUMPTION EXPENDITURES)

	CES Average Expenditures	Percent of CES Average Expenditures	Standard of Need
Food	$2,901	31.1%	$2,729[b]
Housing	4,276	45.9	4,033
Clothing	914	9.8	861
Public Transportation	132	1.4	123
Health Care	418	4.5	395
Personal Care	113	1.2	105
Other Recreation	334	3.6	316
Reading	45	0.5	44
Education	95	1.0	88
Miscellaneous	92	1.0	88
TOTAL	$9,320	100.0%	$8,782
			$8,387 less health care

Multiplier 3.22

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a. Average family size was 3.2 and average income before taxes was $6,554 in 1973. Using the Weekly Earnings of Factory Production Workers for the Boston Metropolitan Area to estimate wage inflation yields $10,486 in 1980. However, this may underestimate total average income for single-parent families. The increase in the percentage of part-time workers led to a smaller total increase in the Weekly Earnings of Factory Production Workers from 1977 to 1980 than would have esisted if the percentage of part-time workers had remained the same from 1977 to 1980.[6]

b. The cost of the USDA Thrifty Food Plan is $2,729. Multiplying by 3.22 yields $8,787. Adding the budget component yields $8,782 due to rounding errors.

Lowest and Highest Options

The least costly option for adapting the 1972-73 Consumer Expenditures Survey yields an AFDC standard of need of $7,230, compared to the July 1980 Massachusetts actual standard of need of $5,334 (or $6,840 with Food Stamps) for a family of four. The most costly option for adapting the CES yields an AFDC standard of need of $10,663. The July 1980 Massachusetts standard of need is thus one-half to three-quarters (or 65% to 95% with Food Stamps) of a standard based on the 1972-73 CES.

CHAPTER FIVE: ADJUSTING A STANDARD OF NEED FOR DIFFERENT FAMILY SIZES

Introduction

The purpose of this chapter is to describe four options for adjusting the standard of need for various family sizes.

Until 1975, the AFDC standard of need in Massachusetts varied not only according to family size, but also according to ages of children and whether or not a woman was pregnant. While it might be more equitable to adjust for a matrix of family constellations, it would not be practical to do so. Since the existing level of technical expertise does not allow for the precise "fine tuning" of the standard of need, the costs of adjusting the standard for factors other than family size would far outweigh the benefits.

Options for Adjusting a Standard of Need for Different Family Sizes

The four options presented vary in regard to the degree to which economies of scale play a role in determining grants for different family sizes. Economies of scale result from the fact that certain costs may not increase at the same rate as family size. For example, if a family of four spends $100 on food, a family of eight may not need $200 in order to eat as well; it may only have to spend $175. Conversely, a family of one will have to spend more than $25 to eat as well. Fixed costs are proportionately higher for smaller families.

Option 1. Use the adjustment factors that are currently used in Massachusetts' AFDC standard of need. Presently, a standard amount of $65.50/month is added to the grant for a family of one for each additional family member. Thus, the grant for a family of four becomes $444.50/month. If the standard of need were to be increased by X%, the standard adjustment amount would also be increased by X%.

The following chart details the current adjustment factors based on $65.00 increments.

ADJUSTMENT FACTORS BASED ON THE CURRENT MASSACHUSETTS STANDARD OF NEED FOR AFDC

Family Size	Adjustment Factor
1	.56
2	.71
3	.85
4	1.00
5	1.15
6	1.29
7	1.44

Option 2. Use adjustment factors derived from an analysis of the budget components of the standard of need.[1]

1. Food. The USDA maintains standard adjustment factors for its four food plans. These factors could be used for the food component of the budget for AFDC families. The food standard for a family of four is divided by four to determine the food cost for one person. This amount is multiplied by the appropriate adjustment factor to arrive at different individual costs for each family size. The individual food cost is then multiplied by the appropriate family size to arrive at total food costs.

ADJUSTMENT FACTORS FOR INDIVIDUAL FOOD COSTS

Family Size	Adjustment Factor
1	add 20%
2	add 10%
3	add 5%
4	standard
5-6	subtract 5%
7 or more	subtract 10%

2. Personal Care. Economies and diseconomies of scale can also be assumed to exist for personal care items. Because of the similarity in bulk buying for food and personal care items, the same adjustment factors as used for food could be used here.
3. Clothing, Transportation,[2] and Other Family Consumption. Since there is little likelihood of there being economies or diseconomies of scale for these categories, the standard is merely divided by four to arrive at individual costs. These individual amounts are then multiplied by the appropriate household size.
4. Shelter. The housing component is both the most crucial and the most difficult item for which to determine adjustment factors. The nature of the available data precludes making an accurate assessment of what the adjustment factors ought to be; however, an option based on the HUD Fair Market Rent (FMR) Schedule will be presented.

Since FMRs are calculated by the number of bedrooms, the first task is to relate number of bedrooms to family size. The following table presents one possible alternative:

NUMBER OF BEDROOMS AND FAMILY SIZE

Family Size	No. of Bedrooms
1	1
2	1
3	1-2
4	2
5	2-3
6	3
7 or more	4

Taking an average of the highest and lowest FMRs in the state for each apartment size yields the following table:

AVERAGE FMRs IN MASSACHUSETTS FOR APARTMENTS WITH 1 to 4 BEDROOMS

No. of Bedrooms	Average FMR
1	$250
2	$295
3	$340
4	$384

Average FMR for a 1-2 bedroom apartment is $273 and average FMR for a 2-3 bedroom apartment is $318. The resulting adjustment factors are:

ADJUSTMENT FACTORS FOR SHELTER BASED ON AVERAGE FMRs

Family Size	Adjustment Factor
1	.85
2	.85
3	.93
4	1.00
5	1.08
6	1.15
7	1.30

5. Household Furnishings and Operations. Since this component relates directly to apartment size, the same adjustment factors used for the housing component will be used here.

6. Summary. Using the minimum standard of need derived from the BLS lower budget ($7,621), and the various adjustment factors for each of the budget categories, the following overall adjustment factors result:

ADJUSTMENT FACTORS DERIVED FROM AN ANALYSIS OF THE BUDGET COMPONENTS OF THE STANDARD OF NEED BASED ON THE BLS LOWER BUDGET

Family Size	Adjustment Factor
1	.50
2	.66
3	.84
4	1.00
5	1.16
6	1.33
7	1.50

Option 3. Use the BLS Budget Series adjustment factors. The BLS warns against using these factors if the Budgets are altered. However, as a basis for comparison, average BLS adjustment factors for families with the head of the household being 35-54 years old (as in the standard BLS family) are presented below.

BLS BUGET SERIES ADJUSTMENT FACTORS

Family Size	BLS Budget Adjustment Factor
1	.36
2	.60
3	.82
4	1.00
5	1.16
6	1.32

Option 4. Use the adjustment factors developed for the Poverty Index. In 1965 the Social Security Administration[3] developed a methodology for determining poverty levels for families of different sizes. Families of three or more persons were found to spend one-third of their monetary income on food. The USDA Economy Food Plan was used to determine food costs for each family size, and these amounts were multiplied by three in order to determine poverty thresholds for families of three or more. Families of two, on the other hand, were found to spend only 27% of their income on food. Thus, the multiplier for a family of two became 3.7 instead of 3. Multiplying the Economy Food Plan for a family of two by 3.7 yielded the poverty threshold. Somewhat arbitrarily, the poverty threshold for a family of one was said to be 80% of the threshold for a family of two. The basis for this decision was the assumption that a family of one maintained fixed costs that were nearly as high as for a family of two. Since the original thresholds were developed, they have been inflated according to the CPI. (See Chapter Three for a discussion of the Poverty Index.)

The following table details the adjustment factors and poverty thresholds based on the estimated Non-Farm Poverty Thresholds for July 1980.[4]

POVERTY INDEX ADJUSTMENT FACTORS

Family Size	Poverty Threshold	Adjustment Factor
1	$ 4,073	.51
2	5,258	.66
3	6,235	.78
4	7,990	1.00
5	9,459	1.18
6	10,687	1.34
7	13,238	1.66

Comparison of Family Size Adjustment Factors

Four alternatives have been presented and are summarized below:

COMPARISON OF FOUR ADJUSTMENT FACTORS

Family Size	Present Massachusetts	Analysis of Standard Based on the BLS Lower Budget	BLS	Poverty Index
1	.56	.53	.36	.51
2	.71	.66	.60	.66
3	.85	.84	.82	.78
4	1.00	1.00	1.00	1.00
5	1.15	1.16	1.16	1.18
6	1.29	1.33	1.32	1.34
7	1.44	1.50	1.32	1.66

The major difference among the alternative methods of determining adjustment factors lies in the results for families of 1, 2, and 7. Clearly, this is because economies and diseconomies of scale were given different weights by the various agencies that developed these adjustment factors. One possibility is to compute an adjustment factor which is the average of the alternatives presented:

MEAN ADJUSTMENT FACTORS DERIVED FROM THE FOUR OPTIONS

Family Size	Adjustment Factor
1	.49
2	.66
3	.82
4	1.00
5	1.16
6	1.32
7	1.48

Alternatively, a decision could be reached that one or another of the adjustment factors is most accurate for each family size. Whatever decision is reached should be clearly documented.

CHAPTER SIX: UPDATING THE STANDARD OF NEED

Introduction

The purpose of this chapter is to address the perennial problem of updating the AFDC standard of need in order to account for the effects of inflation.

Chapter One demonstrated that the purchasing power of the standard of need has decreased by 37% (or 27% with food benefits) from 1970 to July 1980. Recipients cannot now buy the same quantity of goods and services they had previously been able to purchase.

Options for Indexing the Standard of Need

The following section will present three options for "indexing" a standard of need to account for inflation. The method used to determine the standard of need will also determine the appropriate method for indexing the standard.

Option 1. The annual percentage increases in the components of BLS lower budget can be used to update a standard of need based on the BLS lower budget (see Chapter Two). Since the BLS Budget Series is released annually in April, the needed data are available before the Department's budget request must be submitted. While the annual BLS increases only reflect price changes to the preceding November, there are always time lags when compiling benefit grant as well as salary increases. If more recent data were required, the Boston CPI for May or July could be used to update the various budget components.

Option 2. Use the Poverty Index to update a standard of need based on the Poverty Index (see chapter Three). The official Poverty Index, also released annually in April, is based on the percent change in average annual CPI. In order to account for different price levels in Massachusetts, the BLS Lower Budget Comparative Index could be used to adjust the Poverty Index.

Option 3. Use the Boston CPI to update a standard of need based on the CES (see Chapter Four). The detailed CPI for Boston could be used to inflate the various budget components. The CPI for Boston is readily available since it is updated every other month.

NOTES

Chapter One

1. Rosado v. Wyman, 90 S. Ct. 1207, (1970).

2. Shea v. Vialpando, 94 S. Ct. 1746, (1974).

3. Rosado v. Wyman, 90 S. Ct. 1207, (1970).

4. Ibid.

5. U.S., Department of Health and Human Services, "AFDC Standards for Basic Needs July 1979," (1980), p.3.

6. U.S., Code of Federal Regulations, 45, Public Welfare, Section 233.20 (a) (2) (iii).

7. U.S. Code of Federal Regulations, 42, USC, Section 602 (a) (23).

8. Roselli v. Affleck, 508 F.2d 1277 (1977).

9. The Consumer Price Index (CPI) measures the price change of a constant market basket of goods and services over time (the same consumer goods and services are priced at different times). Thus, the CPI is a measure of inflation. It is not, however, a measure of changes in the cost of living since it does not account for changes in shopping practices; the market basket does not vary to reflect consumer preferences. For example, as the price of beef goes up, consumers may switch to less expensive items such as chicken.

   A cross-section of consumers living in a representative sample of urban places provides the basis for the selections of each item in the index. The CPI uses statistically valid methods to price goods and services. Two indices are published: the wage earner and clerical workers index (CPI-W) and (since 1978) the all urban consumers index (CPI-U).

10. General Laws of Massachusetts, Chapter 118, Section 1.

11. Chief, Elizabeth, "Need Determination in AFDC Program," Social Security Bulletin, Vol. 42, No. 9, September 1979.

12. Orshansky, Mollie, "How Poverty is Measured," Monthly Labor Review, February 1969, p.38.

NOTES (continued)

13. Food Stamp benefits in 1980 for a family of four were estimated to be $126/month or $1512/year in July 1980. The maximum allowable deductions were utilized to calculate the benefit level for AFDC recipients.

    The AFDC participation rate in the Food Stamp Program has been at least 75% over the past year. This estimate does not include AFDC recipients that have a non-AFDC stepfather heading the family, and may qualify for Non-Public Assistance Food Stamps. The Commodity Food Program, a program that distributed surplus food to poor people, was available in 1970. Robert Cloutier, Director of Program Assessment, has estimated that about $35 worth of food was received each month by approximately 60% of the AFDC caseload. Recipients had no choice about which food items they were given, and the usefulness of the foods varied from month to month.

14. See Chapter Three, Footnote 3.

Chapter Two

1. The quantity of a particular good or class of goods to be used in the BLS Intermediate Urban Family Budget was determined to be at the inflection point. On a graph of consumption of a particular good versus income class, the inflection point is where the rate of change of consumption in relation to income class is changing most rapidly. This statistical method has been labeled the quantity-income-elasticity or q-i-e technique. Quantities for the lower and higher family budgets were determined to be the amount one or two classes below or above the income class containing the inflection point. The various quantities of goods were priced and totaled to obtain the three budgets.

   The BLS describes the inflection point as being the point of maximum elasticity. However, due to a technical error, this is not the case. In order for the inflection point to be the point of maximum elasticity, the function of consumption versus income class would have had to be graphed on double log paper. This is because elasticity of demand is measured by percentage and not absolute change, and because only double log paper graphs percentage change. If double log paper had been used, then, according to the calculus, the first derivative at the inflection point would have been the point of maximum elasticity.

NOTES (continued)

2. The USDA Food Plans are "amounts of foods of different types (food groups) that families might buy or obtain by home production, to provide nutritious diets for family members at different levels of cost." (Peterkin, Betty, "USDA Food Plans, 1974," Family Economics Review, Winter 1975, p.3.)

   The plans vary according to the quantity of more expensive foods that are included. For example, the liberal food plan (the most expensive) includes both a wider variety and a larger quantity of meats, fruits and vegetables than the less expensive food plans. The plans were developed to be consistent with the food consumption patterns of American families. The Thrifty Food Plan, the least expensive plan and the one that the Food Stamps program is based on, requires "skill and interest in buying and preparing food." (Peterkin, Betty, "Dietary Guidance for Food Stamp Families," Family Economics Review Highlights, Winter 1976, p. 23.)

3. U.S. Department of Labor, Bureau of Labor Statistics, "Autumn 1978 Urban Family Budgets and Comparative Indexes for Selected Urban Areas," p.7.

4. U.S., DOL, BLS, "Three Standards of Living for a Family of Four Persons," (1969), p.40.

5. This section is based on the Urban Systems Research and Engineering's Study on AFDC and GPA Need Standards prepared for the Governor's Commission on Welfare Grants in Maryland (1979), and the Wisconsin Basic Needs Project Proposal (WBNPP).

6. WBNPP, p.7.

7. U.S., Department of Health Education and Welfare, Poverty Studies Task Force, "The Measure of Poverty," Technical Papers No. 4, cited in WBNPP, p.7.

8. U.S., DOL, BLS, 1570-5, p.9.

9. The AFDC caseload is distributed as follows: 22% resides in Boston, 12% in Greater Boston, 20% in Lawrence, 19% in New Bedford, 11% in Worcester, and 16% in Springfield.

9a. This methodology is based on the Urban Systems Research and Engineering's Study on AFDC and GPA Need Standards prepared for the Governor's Commission on Welfare Grants, in Maryland (1979).

NOTES (continued)

10. The most recent BLS lower budget for Boston reflects November 1979 price levels. The following chart details that Budget.

BLS Lower Urban Family Budget for Boston, November 1979

Total Budget	$13,623
Family Consumption	
Total Consumption	10,809
Food-Total	3,999
Food-at-Home	3,492
Food-away-from-Home	507
Housing Total	2,771
Shelter	2,170
House Furnishings and Operations	601
Transportation-Total	1,080
[Automobile Owner	1,878]
Clothing	938
Personal Care	327
Medical Care	1,083
Other Family Consumption	611
Other Items	556
Social Security and Disability Payments	834
Personal Income Taxes	1,424

11. State law mandates that transportation be provided for: 1) children living at least 1½ miles from school, and 2) for high school students living at least two miles from school. In the Boston area, discount MBTA passes may be purchased directly from the MBTA for 20¢ round trip if a student does not qualify for school provided transportation.

12. Winter 1980 conversation with Mark Sherwood, Office of Prices and Living Conditions, BLS, Washington, D.C.

13. U.S., DOL, BLS, 1570-5, p.42.

14. Memo from Margie Platt to Dan Friedman, September 15, 1980, "Emergency Assistance Impact Study, AFDC Sample."

15. Fair Market Rent (FMRs) are maximum allowable rents for various geographical areas under Section 8 subsidized housing.

16. A more careful allowance for the geographic distribution of the AFDC distribution of the AFDC caseload would probably result in a higher average monthly rent.

Chapter Three

1. Orshansky, Mollie, "How Poverty is measured," Monthly Labor Review February, 1969, p.38.

2. Ibid, p.38.

NOTES (continued)

3. The Poverty Index is issued in two forms: 1) by the Bureau of the Census, and 2) by the Bureau of Federal Statistical Policy and Standards (BFSPS). The Census Poverty Index is an indicator of poverty for the preceding year and is based on the preceding year's price levels. Thus, the 1979 Poverty Index, issued in 1980, does reflect 1979 price levels. The BFSPS Poverty Index is issued as a determinant of current program eligibility. It too is based on the preceding year's price levels; however, it is issued as the current Poverty Index. Thus, the 1980 Poverty Index issued by the BFSPS reflects 1979 price levels.

4. The issues presented in this discussion are based on Urban Systems Research and Engineering's Study on AFDC and GPA Need Standards prepared for the Governors Commission on Welfare Grants in Maryland (1979).

5. U.S., Department of Agriculture, Economics, Statistics and Cooperative Service, "Changes in Food Expenditures by Income Groups," ESCS-57, A.E. Gallo, William T. Boehm and Corrinne LeBouit (Washington, D.C., 1979).

6. The 1979 Poverty Index issued by the Bureau of the Census was $7412. In order to estimate the July 1980 level, the percentage increase in the national CPI-U from December 1979 to July 1980 was used. Inflating the 1979 Index by 7.8% yields an estimated Index of $7990.

7. As stated previously, costing out a medical component from the Poverty Index is inappropriate.

8. Memo from Karen Capeless, Legal, to Ellen Epstein, Research and Evaluation, March 18, 1980, "Ratable Reductions and Food Stamps."

9. Orshansky, op.cit., p.38.

Chapter Four

1. This methodology is based on a study undertaken by the Bureau for Planning and Evaluation, Illinois Department of Public Aid, April 1980.

2. U.S. DOL, BLS, "Consumer Expenditure Survey Series: Interview Survey, 1972-73," Bulletin 1985 (1978).

3. Thurow, Lester C., The Zero-Sum Society, (New York: Basic Books, Inc., 1980), p. 50.

4. Ibid.

5. Ibid.

6. Ibid.

NOTES (continued)

Chapter Five

1. A similar methodology was used by Urban Systems Research and Engineering's Study on AFDC and GPA Need Standards prepared for the Governor's Commission on Welfare Grants in Maryland.

2. If the option that included special fares for children was selected, a different method of adjusting this component would have to be used.

3. Orshansky, Mollie, "Counting the Poor: Another Look at the Poverty Profile," Social Security Bulletin, 1965.

4. Estimated using the 1979 Poverty Index and updating according to the national CPI-U, December 1979 to July 1980 (7.8%).

APPENDIX A:

THE 1972-73 CONSUMER EXPENDITURE SURVEY

Background

Consumer expenditure surveys are specialized family living studies in which the primary emphasis is on collecting data relating to family expenditures for goods and services used in day-to-day living. Expenditure surveys of the Bureau of Labor Statistics also collect information on the amount and sources of family income, on changes in savings or debts, and on major demographic and economic characteristics of family members.

The Bureau's studies of family living conditions rank among its oldest data-collecting functions. The purpose of the first nationwide expenditure survey in 1888-91, in line with the legislation creating the Bureau, was to study the worker's spending patterns as elements of production costs, with special reference to competition in foreign trade. It emphasized the worker's role as a producer, rather than as a consumer. Purposes and coverage changed in successive surveys, and problems caused by higher prices led to the second survey, in 1901. The index of prices of food purchased by working men, with weights based on 1901 data, was used generally as a deflator for workers' incomes and expenditures for all kinds of goods until World War I. The third major survey, spanning 1917-19, provided weights for computing a "cost-of-living" index, now known as the Consumer Price Index (CPI). (See chapter 13.) The next major study was made for 1934-36 primarily to revise these index weights and covered only urban wage and clerical workers.

In the economic depression of the 1930's, interest in consumer surveys expanded from study of the welfare of selected groups to general economic analysis. Almost simultaneously with its 1934-36 investigation, the Bureau cooperated with four other Federal agencies in a fifth survey, the Study of Consumer Purchases, in 1935-36, which presented consumption estimates for all segments of the population, both urban and rural. The sixth survey, for 1950, covered only urban consumers. The seventh survey, Survey of Consumer Expenditures, 1960-61, included both urban and rural families. It, like the 1950 survey, provided the basis for revising the CPI and also supplied abundant material for broader types of economic, social and market analysis. The remainder of this chapter deals with the 1972-73 survey—the latest in the series describing the consumption behavior of the American people.

Design of the 1972–73 Survey

The 1972-73 Consumer Expenditure Survey is the eighth major survey of this type, and the first since 1960-61. Unlike previous surveys, the collection of data was carried out by the U.S. Bureau of the Census under contract with the Bureau of Labor Statistics. The 1972-73 survey was undertaken in part to revise the weights and associated pricing samples for the CPI, and in part to help meet the need for timely, accurate, and detailed information on American consumer spending patterns. Satisfying these two objectives is particularly important in periods of inflation and rapid economic change. The 1972-73 survey consisted of two separate surveys, each with a different data collection technique and sample: (1) a quarterly panel survey in which each consumer unit[1] in the sample was visited by an interviewer every 3 months over a 15 month period, and (2) a diary or recordkeeping survey completed at home by the respondent family for two 1-week periods.

This design differed markedly from that of previous surveys, including the 1960-61 survey. In that survey, data were collected at a single point in time with the BLS interviewer asking detailed questions as members of the respondent family reconstructed the previous year's receipts and disbursements. A detailed supple-

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[1] A consumer unit is defined as "(1) a family of two persons or more usually living together who pool their income and draw from a common fund for their major items of expense, or (2) a single consumer who is financially independent of any family group. The single consumer (or one-person family) may be living either by himself in a separate housing unit; as a roomer in a private home, lodging house, or hotel; or sharing a unit." The 1972-73 Consumer Expenditure Survey represented all non-institutional consumer units living in the United States. All persons residing at a selected sample address were eligible for the survey except for periods in the survey year that they resided in military posts, camps, or reservations (except for periods of 45 days or less for training with National Guard or reserve units); in homes for the aged, asylums, jails, and similar "long-stay" institutions; or in foreign countries (except on vacations or business trips). (See Technical Reference No. 7, pp. 15-16.)

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mental questionnaire, covering one week's purchases of food and other frequently purchased items, was also completed. (See Technical Reference 7 for a description of collection methods and list of published results.)

Acting as agent for the BLS, the Census Bureau conducted the first year of the 1972-73 quarterly survey between January 1972 and March 1973. Interviewing for the second year ran from January 1973 to March 1974. The first year of the diary survey covered the period from the last week in June 1972 through the third week of June 1973. The second year diary covered the period from the middle of 1973 through the middle of 1974.

It is estimated that the quarterly survey obtained detailed data for 60 to 70 percent of total family expenditures. Aggregate estimates, for example, of food and beverages, were obtained for an additional 20 to 25 percent of total expenditures. The detail by item for these aggregate estimates was collected in the diary survey as was the balance of total expenditures for inexpensive and frequently purchased items not included in the quarterly survey.

All data collected were subject to the confidentiality requirements of the Bureau of the Census and the Bureau of Labor Statistics which protect against the disclosure of respondents' identities.

Collection Methods

Field Organization

Data collection was under the direction of the Census Bureau's permanent professional field staff, which operated through 12 data collection centers throughout the United States. In addition to these offices, 26 local program offices were established for a period of about 2½ years. Each local office was directed by an area supervisor with a staff consisting of about six interviewers and an editor-clerk. Interviewers, whenever possible, were selected from the most experienced and best qualified of those who worked on the Decennial Census or on post-censal and evaluation projects. The total number of interviews for each phase was approximately 200.

Staff members were throughly trained prior to beginning their work on the survey. Interviewers received about 7 days of classroom training plus self-study training materials. Additional home study materials and classroom training was conducted prior to beginning each quarter of the survey. Formal training was supplemented by on-the-job training sufficient to insure job performance at the level of established standards. Quality control measures, such as editing returns, observing interviews, and reinterviewing selected sample family units, were employed throughout the survey.

Data Collection

Some testing of collection methods was performed by the Bureau of Labor Statistics and by the Survey Research Laboratory of the University of Illinois. These tests and the experience of other countries indicated that high quality data could be obtained in a consumer expenditure survey if the survey design was tailored so that information on larger and more easily recalled expenditures was collected by periodic recall interviews and small, less expensive items by day-to-day recordkeeping (diaries). This led to the creation of quarterly and diary collection vehicles. Furthermore, the quarterly design took account of the notion that some items are easily recalled over long periods while others are accurately remembered only over relatively short periods.

Quarterly Survey

The initial quarterly survey interview for each year provided socio-economic characteristics of the consumer unit, an inventory of major durable items, with indication of when obtained, and data covering a great variety of regularly purchased items bought since the first of the year.

Subsequent quarterly interviews continued the collection of detailed expenses. In addition, in quarters two through five, global estimates for food and beverages were obtained, as an aid in possible integration with detailed food item reports collected by diary. Also, at the second quarter, a global estimate of consumer unit income for the previous year was collected.

The fifth and final interview yielded information on housing expenses, work experience, changes in assets and liabilities, expenses for most goods and services previously requested, and estimates of consumer unit income. Data on the latter involved highly detailed income queries, ranging from wage and salary earnings by each member of the unit to consumer unit totals of rents, interest, dividends, etc.

A mere listing of the broad areas of expenditures surveyed would provide only cursory insight into the vast amount of detail collected. In the clothing section of the questionnaire, for example, not only were the items of apparel narrowly defined (dress shirts, sport shirts, work shirts, blouses or tops, other shirts), but age and sex codes were assigned for both purchases of clothing for family members and gifts of clothing purchased for others. Data collected on housefurnishings and home appliances included indications of whether items purchased were new or used, and whether or not purchases were financed in part by trade-ins. In addition, the quarterly survey collected detailed information pertaining to out-of-town trips and vacations.

Diary Survey

The diary, completed by the respondent family, was designed primarily to obtain expenditure information which was either not collected in the quarterly survey or was collected only as a global estimate in that survey. Expenditures for individual items of food, beverages, personal care and housekeeping operation products and services are considered to be poorly recalled by respondents for long periods of time. The diary survey, however, was not limited to those types of expenditures, but, rather, included all expenses which the family incurred during the survey week, except for expenses for family members while away from home overnight and for credit and installment plan payments.

Prior to leaving a diary with a consumer unit, the interviewer first collected information on selected socio-economic characteristics of members of the household in order to establish the composition of the consumer unit and to classify the unit for analysis. This information also would permit the diary to be linked to similarly classified data covered in the quarterly or other surveys. Each reporting unit in the diary survey was then requested to maintain a daily record of all expenditures for two 1-week periods.

The diary reporting form was divided by day of purchase and broad classifications of goods and services—meat, fish, and poultry; laundry and diaper service, beauty and barber shop; household help, babysitters, and so on. This breakdown was used to aid the respondent in recalling items when recording daily purchases. It also facilitated the coding of individual purchases, so that meaningful aggregates and subaggregates of individual purchases could be presented in statistical tables. The respondent was instructed to record a detailed description of the goods or services purchased, for example, milk: Whole, skim, half and half, chocolate, condensed, and so forth. This detail was required in order for items to be represented in the Consumer Price Index according to their relative importance.

Within the category food and beverages for home consumption, information was requested on the number of units purchased, net weight or volume per unit, type of packaging (fresh, frozen, canned, packaged), and total cost. For meals and snacks purchased at a restaurant, carryout, and so on, information was requested on kind of purchase, type of outlet, and total cost including tips.

For drugs or medical supplies, the respondent was requested to indicate whether the item purchased was prescribed by a physician. Information was requested regarding the age and sex of individual members of the consumer unit for whom clothing purchases were made. Rent, utility, fuel, telephone, and insurance expenses were collected in relation to the period covered by the expense. All gift purchases were specially noted.

The data collected by the diary survey were subject to detailed classification by the computer. More than 1,700 separate codes were developed to differentiate purchases by class and description.

Sampling

Design

The sample for each survey was a self-weighting, multi-stage, national probability sample modified slightly to provide for a designated minimum sample size in 26 selected areas. The samples included 216 primary sampling units (PSU's), of which 54 were selected with certainty and the remaining 162 selected on a basis of a probability proportionate to size from about 1,000 PSU's in about 145 strata of approximately equal size. PSU's included both urban and rural territory and were either an entire Standard Metropolitan Statistical Area (SMSA), a single county, or a group of counties.

The samples were selected from the 1970 Census 20-percent tape file and stratified on the basis of the following characteristics: Housing tenure, size of primary family and family money income. Separate samples were drawn within 55 strata (5 size of family classes x 5 income classes x 2 tenure classes for housing units plus 4 classes of vacant housing units plus group quarters). No other variables were included in the sample selection procedure.

Quarterly Sample

Approximately 23,000 addresses were selected for the quarterly survey sample. Of these, 10 percent were expected to be vacant or demolished at the time of the survey, and another 15 percent were expected to decline to participate or otherwise be unavailable for the survey. On the basis of these assumptions, the survey would yield 17,000 complete interviews. Should the anticipated 17,000 interviews not be realized from the original 23,000 unit sample, a matched sample was to be drawn upon to achieve the level required nationally and also for each of the 26 designated PSU's.

The survey was conducted over a 2-year period. The sample of 23,000 units was divided into two representative subsamples of approximately 11,500 units for each survey year. Division of the sample was made on the following basis with each subsample being designated for inclusion in one of the two survey periods:

1. The 30 largest certainty PSU's were included in both survey periods with one-half of the units being included in each survey period.
2. The remaining 186 PSU's were paired into two groups of 93 PSU's each. One group was designated for the 1972 survey and the other group for the 1973 survey.

Diary Sample

A separate panel of households was selected for the diary survey. The sample design was identical with that used for the quarterly survey, including the same variables for stratification. The number of units selected was expected to yield completed diaries from 17,000 households, assuming a 30 percent noninterview rate for occupied units. As in the quarterly survey, the diary sample was divided into two equal parts with one part being included in each survey year. The sample was divided further into 52 subsamples in order that each week of the year be represented in the survey.

Response Rates

The cooperation of respondents was excellent. Preliminary response rates for the quarterly survey indicate that 88 percent of eligible sample units responded in 1972 and about 90 percent in 1973. The percentages represented 9,869 consumer units interviewed in 1972 and 10,106 in 1973. For the diary survey, response rates were 80 percent in 1972-73 and 90 percent in 1973-74 with the percentages representing 21,367 completed 1-week diaries in the first year and 23,355 in the second year.

Data Dissemination

Information from the 1972-73 Consumer Expenditure Survey will be made available in bulletins, statistical reports, and on computer tapes. Some preliminary results from the first-year diary survey were made available in April and May 1975 in news releases: USDL 75-212 and 75-276. These may be obtained from the information office of the BLS Office of Publications (202/523-1221).

The bulletins will present combined year data from the diary and quarterly separately. Data will include mean expenditures for all families and single consumers in the United States as well as for each of four regions of the Nation. In each of these areas, expenditure data will be tabulated by a set of family characteristics in one-way and cross-classified arrays. The diary survey will be the primary source for detailed data on food, housekeeping supplies, personal care items and services, selected energy expenses and non-prescription drugs and medical supplies. In excess of 100 expenditure categories will be displayed in the one-way tables. Some collapsing of the detail appearing in the one-way tables may be necessary to support the cross-classified tables.

The quarterly survey will be the source of expenditure information on housing, utilities, clothing, major and minor equipment, housefurnishings, transportation, trips and vacations, insurance, medical services, education, reading, global food estimates as well as data on income, assets and liabilities. The classifying characteristics and tables will be similar to those produced for the diary.

The second general form of release will be through Consumer Expenditure Survey Series reports. These will include individual year estimates for diary and quarterly data.

For the diary, the detailed expense classification established for the combined year estimates will be collapsed into more general groupings for both tabular forms of the single year estimates. An initial issue of this report series was published in November of 1975, BLS Report 448-1, presenting selected weekly expenditures cross-classified by family characteristics. The report series will also serve as the dissemination vehicle for background articles on the survey, presenting such information as definitions, cooperation rates, mean expenditure variances as well as periodic analytic studies.

The third form of dissemination will be public-use computer tapes. These tapes will contain micro-data from each survey, subject to the confidentiality policies of BLS.

Publications and tapes are scheduled for release periodically throughout 1976 and early 1977.

Uses and Limitations

Uses

As in past consumer expenditure surveys conducted by the Bureau, the revision of the Consumer Price Index market basket and weights remains as a primary reason for undertaking such an extensive survey. The results of the survey have been used to select a new basket of goods and services for the index and to determine the relative importance of the items selected.

The data from the survey will be of value to government and private agencies interested in studying the welfare of particular segments of the population, such as the aged, low-income families, urban families, and those receiving food stamps. As in the past, the Internal Revenue Service expects to use data from the survey as the basis for revising the average State sales tax tables which taxpayers may use in filing Federal income tax returns. The Bureau of Labor Statistics uses the survey results to revise its Family Budgets estimates. (See chapter 12.) The survey data will be of use to economic policy makers interested in the affects of policy changes on levels of living among diverse socio-economic groups. Econometricians will find the data useful in constructing economic models. Market researchers will find it valuable in analyzing the demand for a group of goods and services. The Department of Commerce will use the survey data as a source of information for revising its benchmark estimates of some of the Personal Consumption Expenditure components of the Gross National Product.

Limitations of the Data

The results of the quarterly and diary surveys are subject to several types of error. These include sampling, reporting and processing errors, and errors due to the inability or refusal of some consumer units to give the information requested. All data were reviewed and edited to minimize reported and processing errors. Inaccurate reporting is a source of error in any survey. Thorough training of interviewers and careful attention to collection vehicle design helps to minimize such errors insofar as possible.

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APPENDIX B:

COST PROJECTIONS

Introduction

The purpose of this appendix is to project cost estimates for six different hypothetical standards of need. Since a large number of standard of need options were presented in the text, it would be unwieldy to project costs for each possible combination of options. Also, little would be gained from projecting costs for minor differences in the standard. Therefore, costs were projected for standards at approximately $500 increments. This allows for the most flexibility when analyzing the costs of various standards of need, based on the options and methodologies presented in the text.

Caseload and Cost Projections for FY81

The chart below details the projected total AFDC caseload and projected costs for six alternative standards of need, as well as for the present Massachusetts standard of need.

TABLE B - 1: CASELOAD AND COST PROJECTIONS FOR SIX STANDARDS OF NEED FOR FY'81

Options	Grant For A Family Of Four	Increase From the Current Standard	% Increase From the Current Standard	Total AFDC Caseload	Increased Caseload	% Increase	Total AFDC Costs (000)	Increased Costs (000)	% Increase From Present Total AFDC Costs
Current Standard	$5334			126,580*			$525,000**		
1	$5830	$496	9%	129,521	2,941	2%	$586,522	$61,522	12%
2	6360	1026	19	132,716	6,136	5	653,933	128,933	25
3	6890	1556	29	136,248	9,668	8	724,382	199,382	38
4	7420	2086	39	139,899	13,319	11	798,632	273,632	52
5	7950	2616	49	142,545	15,965	13	873,158	348,158	66
6	8480	3146	59	145,107	18,527	15	943,429	418,429	80

* Projected, Budget Office

** Projected, including on-going savings from the grant consolidation.

Approximately 3,000 new cases will be added to the caseload with each $500 increase in the standard of need. Thus, the caseload increases by approximately 2-3% for each 10% increase in the standard. In addition, new caseload costs comprise 14-19% of the increased costs. At least 80% of the increase in costs will benefit those already receiving AFDC.

Option 1 raises the standard to $5,830 for a family of four and leads to a $60,000,000 increase in total AFDC costs. Thus, total costs increase by 12% for a 9% increase in the standard of need. Option 3, which calls for a $1,500 increase in the grant or a $6,890 standard for a family of four, leads to a $199,000,000 increase in total costs. Here, total costs increase by 38% for a 29% increase in the grant.

Cost Projection Methodology

The following details the methodology and the assumptions used to project AFDC caseload and costs for the six options presented.

(1) Instead of projecting costs for the various standards of need described in the text, costs were projected for standards at approximately $500 intervals. This is most appropriate given the degree of accuracy that can be obtained from the projections.

(2) A model was developed* to predict total AFDC costs. An outline of the model is presented below. Conceptually the model is read from top to bottom; however, the model is worked through from bottom to top.

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*Bob Cloutier, Director of Program Assessment

Total AFDC costs = FY81 current costs projections + option costs.

(a) Option costs = Increased costs for the current AFDC caseload + costs for the new caseload.

  (1) Increased costs for the current AFDC caseload = FY81 current AFDC caseload projections x the difference between the current standard of need and the particular option for a family of three.*

  (2) Costs for the new caseload = New caseload x average grant for the new caseload.

    (a) New caseload = Change in eligibles x 0.8, which is the assumed participation rate, x 8.5/7 which is a correction factor.

    (b) Average grant for the new caseload = Option for a family of three - the average countable income of new caseload. The average countable income of those adding = average earned and unearned income - work related expenses - work incentive deductions.

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* Average family size is three.

APPENDIX C:

CROSS-STATE COMPARISON OF STANDARDS OF NEED

Introduction

The purpose of this appendix is twofold: first, to present a brief overview of the methods used by other states in determining their standards of need; and second, to review Medicaid eligibility in states that maintain separate standards and payment levels.

Standards of Need in Fifteen States

Table C-1 briefly summarizes the bases of standards of need in 15 states. The states have been chosen because they are in some way similar to Massachusetts or because the manner in which their standard of need is determined is of interest.

Five of the states (Maine, New Hampshire, New York, Maryland and Wisconsin) utilized the BLS Lower Urban Family Budgets in constructing their standards of need. All five states modified the BLS budgets so that the medical, tax and gifts components were eliminated. Wisconsin also maintains a ratable reduction of 85% due to the availability of Food Stamps. The legality of this procedure, however, is open to question. The Massachusetts Department of Public Welfare's Legal Division has stated that while a state may maintain a ratable reduction, it may not use the availability of Food Stamps as a justification for doing so. See the end of this appendix for a memo by the Legal Division on this issue.

One state, Montana, bases its standard on the Thrity Food Plan. In the past, Montana used the Poverty Index, but as the Poverty Index became too high for the amount budgeted by the Montana legislature, the procedure was changed. Montana aims to maintain a benefit level that is 80% of the Thrity Food Plan multiplied by three.

New York, Vermont, and Michigan have undertaken shelter surveys. New York pays different shelter amounts for 58 geographical areas. Michigan pays individual shelter costs up to area maximums. However, if a recipient owns or is purchasing a home, allowances are made to increase the area maximum.

Kansas, on the other hand, uses the Department of Housing and Urban Development's Fair Market Rents (FMRs) as the basis for its shelter component. Fifty percent of the FMR is used as the shelter grant for five geographical areas.

Four states (Rhode Island, Connecticut, Illinois, and California) maintain standards of need for which the basis is unclear. Massachusetts should also be included in this group since the 1949 study on which its standard is based is no longer available and the true rationale for its present standard of need is also unclear. Three additional states (Michigan, Kansas and Arizona) do not know the rationale for the basic component for their standards of need.

TABLE C-1: CROSS-STATE COMPARISON OF STANDARDS OF NEED

	MASSACHUSETTS	MAINE	VERMONT	RHODE ISLAND	CONNECTICUT
Basis	1949 Market Basket Survey.	1973 BLS Lower Family Budget for Portland.	1. Food: 1966 USDA Low Cost Budget 2. Shelter: 1976 Survey 3. Fuel & Utilities: 1960s NY State Study 4. Clothing, Personal Incidentals, etc: 1950s study	Unclear	Unclear
Standard of Need*	$444.50	$522	$753	$517 winter $388 non-winter	$553.26
Payment Level (Percentage Payment is of the Standard)	$444.50	$352(67.5%)	$553 (73.4%)	$517 winter $388 non-winter (100%)	$553.26 (100%)
Additional Information	The grant decreases if rent, fuel or utilities are received at no cost to the recipient.	There are different standards for families where only children are eligible.	1. The standard is updated annually according to components of the CPI. 2. There are two regions for shelter.	The winter standard is in effect from December 6 to March 26.	1. There are three geographical regions. 2. There is a different standard for pregnant women.

*For a Family of Four

TABLE C-1: CROSS-STATE COMPARISON OF STANDARDS OF NEED (CONTINUED)

	NEW YORK	MARYLAND	ILLINOIS	MICHIGAN	WISCONSIN
Basis	1. 1972 BLS Lower Family Budget. 2. Shelter Study.	1972 BLS Lower Family Budget.	Unclear	1. Shelter survey every other year. 2. Other budget components unclear.	1975 BLS Lower Family Budget.
Standard of Need*	$563	$326	$350	$643	$622
Payment Level (Percentage Payment is of the Standard)	$563 (100%)	$326(100%)	$350 (100%)	$643 (100%)	$529 (85%)
Additional Information	There are 58 regions for the shelter component.	Urban Systems Research and Engineering contracted to update and revise the BLS Budget (1979).	1. There are three geographical regions. 2. There are different standards for families where only children are eligible. 3. Presently developing a standard based on the 1972-73 Consumer Expenditure Survey.	1. Actual shelter costs are paid up to a maximum for six geographical areas. 2. There are two zones for heat.	There are two geographical areas based on population.

*For a Family of Four

TABLE C-1: CROSS-STATE COMPARISON OF STANDARDS OF NEED (CONTINUED)

	KANSAS	ARIZONA	MONTANA	CALIFORNIA	NEW HAMPSHIRE
Basis	1. Shelter component is 50% of HUD Fair Market Rent. 2. Other budget components unclear.	1. 1971 Shelter and Food Survey	Thrifty Food Plan multiplied by three.	Unclear.	1. 1969 BLS Lower Family Budget, updated to 1974 levels according to the CPI. 2. Shelter unclear.
Standard of Need*	$390	$282	$331	$591	$392
Payment Level (Percentage Payment is of the Standard)	$390 (100%)	$244 (86.5%)	$331 (100%)	$563 (95.3%)	$392 (100%)
Additional Information	1. There are five shelter areas. 2. The grant decreases if shelter received at no cost to the recipient	1. Priced an adjusted BLS Lower Family Budget in Pheonix, Tuscon and Flagstaff; however, this study has not been utilized. 2. Only state without Medicaid	1. The grant decreases if shelter received at no cost to the recipient. 2. There are different standards for families where only children are eligible.		There are three categories for the shelter component: a) shelter b) shelter plus rent c) shelter plus heat and utilities. The shelter allowance increases and the basic grant decreases for (b) and (c) above.

*For a Family of Four

Medicaid Eligibility for States with Different Standards of Need and Payment Levels

A number of issues must be resolved when a state maintains a higher standard of need than its payment level. The most crucial issue is how to determine Medicaid eligibility: should the AFDC standard of need or the AFDC payment level be the basis of Medicaid eligibility? Since HHS regulations are unclear, each of the twenty-six* states that maintain separate standards and payment levels is free to interpret the federal regulations as it wishes.

Ten of the twenty-six states were surveyed by the Office of Research and Evaluation in order to determine what states with separate standards and payments levels used as the basis for Medicaid eligibility. Table C-2 presents the results of that survey. Three of the ten states (Vermont, Indiana and Washington, D.C.) base Medicaid eligibility on the AFDC payment level. Three states (Ohio, Wisconsin, California) base it on the AFDC standard of need. One state (Virginia) maintains separate financial criteria for those who fall in between the standard and the payment level, and one (Arizona) does not provide Medicaid. Two states (Maryland and Oregon) no longer maintain separate standards or payment levels.

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* U.S., Department of Health and Human Services, "AFDC Standards for Basic Needs July 1979," (1980), p.3.

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